

Date Mailed April 11, 2000
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BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Electric Power Company for Approval of  
Plan to Improve Reliability Through Infrastructure and Incentives  
and Request for Rate Increase for Test Year 2000

6630-UR-111

**INTERIM DECISION**

This is an interim decision, granting in part Wisconsin Electric Power Company's application to increase electric and natural gas rates for 2000 and electric rates for 2001.

A rate increase of \$25,199,000 is authorized for Wisconsin retail electric operations annually from present rates, a 1.7 percent increase, and a rate increase of \$11,608,000 is authorized for natural gas operations annually from present rates, a 3.1 percent increase. Rates are based on a 12.20 percent return on common equity and will be in effect until superceded by an order establishing new rates.

**Introduction**

On July 6, 1999, Wisconsin Electric Power Company (WEPCO) submitted financial data for the 2000 test year indicating a revenue deficiency in the test year, but requested no change in rates. On September 17, 1999, WEPCO submitted another filing requesting a two-step rate increase for its electric and natural gas operations and proposing to incorporate certain performance-based measures and incentives. The application involved no change in rates for the company's steam operations, but WEPCO did request a \$46 million (3.1 percent) increase for electric operations and an \$8 million (2.0 percent) increase for natural gas operations to be

effective January 1, 2000. For the second step, WEPCO requested an additional \$29 million (2.0 percent) for electric operations to be effective January 1, 2001.

On December 15, 1999, the Commission held a prehearing conference to determine the issues to be addressed in this docket and to establish a schedule for the hearing. At the prehearing conference, WEPCO indicated its intention to request interim rate relief. On December 27, 1999, the company filed its “Motion of Wisconsin Electric Power Company for Interim Rate Order.” The motion requested an interim rate increase, subject to refund, of an annual amount of \$46 million for WEPCO’s Wisconsin retail electric operations and \$8 million for its natural gas operations.

On January 13, 2000, the Commission authorized a hearing to address WEPCO’s request for interim rate relief and issued its Notice of Hearings, which established the hearing schedule for WEPCO’s request for interim rate relief as well as the hearing schedule for the full rate case hearing. In that notice, the Commission determined that the scope of the interim hearing would be limited to the following issues: (1) the merits of authorizing interim rate increases for electric and natural gas operations subject to refund upon a final determination of revenue requirements; (2) the appropriate level, if any, of interim rate increases for electric and natural gas operations; and (3) how such interim rate increases should be applied to the various rate classes for electric and natural gas operations.

A hearing was held on February 9, 2000, to address the above issues. In rebuttal testimony WEPCO requested an additional \$4.4 million in interim rate relief for its Wisconsin retail electric operations to recover costs associated with complying with pending nitrogen oxide (NOx) regulations, which raised its requested electric increase from \$46 million to \$50.4 million.

### **Findings of Fact**

1. It is reasonable to authorize an interim rate increase, subject to refund, for WEPCO's Wisconsin retail electric and natural gas operations.
2. It is reasonable for WEPCO to continue to defer its costs associated with complying with pending NOx regulations, excluding internal labor and applicable overheads, until final rates in this docket become effective.
3. It is reasonable to use the Wisconsin retail electric revenue deficiency of \$25,199,000 and the natural gas revenue deficiency of \$11,608,000 to determine the overall level of WEPCO's interim rate increase.
4. The inflation estimate of 2.4 percent for the test year 2000 is reasonable.
5. It is reasonable to use the 1999 actual percentage of total payroll charged to Operation and Maintenance Expense (O&M) to forecast test year 2000 O&M payroll.
6. The authorized fuel monitoring cost of \$388,786,825, shown on Appendix D, is reasonable for the test year during the period in which interim rates are effective. The test year fuel cost, divided by the test year estimate of net native energy requirements of 30,475,574 net MWh, results in an average net fuel cost per kWh of \$0.01276. It is also reasonable that the fuel rules variance ranges as approved in docket 6630-UR-110, "Second Interim Order," remain in effect.
7. The annual escrowed conservation costs recoverable in rates from the date this interim rate order is effective until these escrowed amounts are changed by a new order are \$12,853,228 for Wisconsin retail electric operations (\$14,128,367 authorized expenditures less

\$1,275,139 underspending amortization) and \$5,601,022 for natural gas operations (\$4,894,218 authorized expenditures plus \$706,804 overspending amortization).

8. Amortizing the remaining gross balance of capitalized conservation of \$5,628,000 annually over four years is reasonable.

9. Amortizing sulfur dioxide (SO<sub>2</sub>) emission allowance revenues of \$1,721,515 and SO<sub>2</sub> expenses of \$1,150,000 annually is reasonable on a total company basis.

10. It is reasonable to design electric rates for the interim period that would give each customer class approximately the same percentage increase, as shown in Appendix B.

11. It is reasonable to allocate interim natural gas revenues to rate classes based on all non-gas costs, as shown in Appendix C.

12. It is reasonable that this interim rate increase for electric and natural gas be subject to refund, if the final revenue requirement for Wisconsin retail electric operations or natural gas operations, respectively, is less than the interim revenue requirement.

### **Conclusions of Law**

The Commission concludes that it has authority under Wis. Stat. §§ 196.02, 196.03, 196.20, 196.37, and 196.395 to issue the following order.

### **Opinion**

#### **Merits of Interim Rate Increase**

WEPCO has demonstrated the need for interim rate relief in that, without an interim rate increase, the company will experience a revenue shortfall. Granting WEPCO an interim rate increase will serve as a signal of the importance of reliability. Commissioner Mettner dissents.

It is reasonable to continue allowing WEPCO to defer its costs associated with complying with pending NOx regulations, excluding internal labor, until final rates to be determined in this docket become effective.

### **Appropriate Level of Interim Rate Increase**

Because Commission staff had completed its audit prior to the interim rate hearing in this docket, it is reasonable to use the results of Commission staff's audit for determining the overall level of the interim rate increase of \$25,199,000 for WEPCO's Wisconsin retail electric operations and \$11,608,000 for its natural gas operations. In addition, the test year 2000 inflation estimate of 2.4 percent is reasonable. It is also reasonable to use the 1999 actual percentage of total payroll charged to O&M to forecast the level of O&M payroll in the 2000 test year.

All other Commission staff adjustments are reasonable for the purpose of determining the level of interim rate relief. These adjustments include changing certain amortization levels. The annual escrowed conservation costs recoverable in rates from the date this interim rate order is effective until these escrowed amounts are changed by a new order are \$12,853,228 for Wisconsin retail electric operations (\$14,128,367 authorized expenditures less \$1,275,139 underspending amortization) and \$5,601,022 for natural gas operations (\$4,894,218 authorized expenditures plus \$706,804 overspending amortization). It is reasonable to amortize the remaining gross balance of capitalized conservation over four years, resulting in the annual amortization expense of \$5,628,000. In addition, amortizing SO<sub>2</sub> emission allowance revenues of \$1,721,515 and SO<sub>2</sub> expenses of \$1,150,000 is reasonable on an annual, total company basis.

### **Electric Rate Design**

WEPCO proposed a rate design that would uniformly change all the rates of all classes. Commission staff presented two additional alternative rate designs, one based on a uniform energy adder and the other based on increasing each class a uniform percentage, based on current revenues. WEPCO did not enter into the record any cost-of-service study results. A rate design is reasonable where each customer class would receive approximately the same percentage increase based on present revenues. This alternative design changes most of the charges of all rate classes, including lighting classes. While this approach to rate design is appropriate for the interim period, it is reasonable to consider other alternatives in the full case.

The approved electric rates are listed in Appendix B. These rates are just and reasonable.

### **Gas Rate Design**

It is appropriate to allocate interim natural gas revenues to rate classes based on all non-gas costs. This simple approach is reasonable for this interim rate design because no cost-of-service studies have been done to support more complicated revenue allocations.

WEPCO and Commission staff suggested that the interim revenue increase be collected from customers by increasing volumetric charges and leaving customer charges unaffected. An intervenor suggested that since a large portion of the revenue increase is related to customer-related costs, the interim increase should be collected 75 percent via increased customer charges and 25 percent via increased volumetric charges. For the interim it is appropriate to collect the revenue increase via increased volumetric charges only. As with the allocation of revenues to

rate classes, this is a simpler rate design in keeping with the fact that cost-of-service studies have not been performed for this portion of the case.

The approved natural gas rates are listed in Appendix C. These rates are just and reasonable.

### **Order**

1. This order shall be effective on the date of mailing. The authorized rates and rules shall also be effective on the same date, provided that the rates are filed with the Commission and placed in all offices and pay stations of the utility by that date. If the authorized rates and rules are not placed in all offices and pay stations by the effective date of the order, the rates shall become effective on the date that the rates are placed in all offices and pay stations. WEPCO shall prepare bill inserts which appropriately identify the rates authorized herein. WEPCO shall distribute the inserts to customers with the first billing containing these rates and shall file copies of these inserts with the Commission before it distributes the inserts to customers.

2. The authorized rates in Appendices B and C shall be in effect until the issuance of an order by the Commission establishing new rates.

3. WEPCO shall prepare bill inserts that properly identify the rates authorized in this order. Copies of such inserts shall be sent to the Commission. WEPCO shall distribute these inserts to customers with the first billing containing the rates authorized in this order.

4. WEPCO shall record annual escrowed conservation costs of \$12,853,228 for Wisconsin retail electric operations (\$14,128,367 authorized expenditures less \$1,275,139 underspending amortization) and \$5,601,022 for natural gas operations (\$4,894,218 authorized

expenditures plus \$706,804 overspending amortization) from the date this interim rate order is effective until these escrowed amounts are changed by a new order. WEPCO shall also amortize the remaining gross capitalized conservation balance over four years, resulting in an annual amortization expense of \$5,628,000.

5. WEPCO shall record a revenue amortization for SO<sub>2</sub> emission allowance revenues of \$1,721,515 and an amortization expense for SO<sub>2</sub> of \$1,150,000 on an annual total company basis.

6. A reasonable estimate of fuel costs for each month of the test year period is attached as Appendix D. Interim rates reflect the monthly fuel cost estimates in the appendix. The fuel costs in the appendix will be used for required monthly monitoring of the fuel cost pursuant to Wis. Admin. Code ch. PSC 116.

7. WEPCO shall report monthly to the Commission its actual total system cost of generation, purchased energy, capacity, and wheeling costs less the revenues from opportunity sales of energy and capacity. WEPCO shall otherwise comply with the fuel cost determination and monitoring system as set forth in the “Second Interim Order” in docket 6630-UR-110.

Dated at Madison, Wisconsin, \_\_\_\_\_

By the Commission:

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Lynda L. Dorr  
Secretary to the Commission

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See attached Notice of Appeal Rights



Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98

APPENDIX A  
(CONTESTED)

In order to comply with Wis. Stat. § 227.47, the following parties who appeared before the agency are considered parties for purposes of review under Wis. Stat. § 227.53.

Public Service Commission of Wisconsin  
*(Not a party but must be served)*  
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IBEW, LOCAL UNION 2150

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SUPERIOR WATER, LIGHT AND POWER COMPANY

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WISCONSIN PAPER COUNCIL

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